



DATE: July 18, 2022
SUBJECT: Investment Policy Statement
TO: Members of the Board
FROM: Joseph W. Sheva, CPA, FRM *JWS*
Director - Risk and Compliance

The following summarizes the Board's IPS revisions related to the transition plan approved at the March 2022 Board meeting. The transition plan provides that the IPS will be updated over a number of interim steps to change the current target asset allocation to the new target asset allocation. The initial step, shown below as "Current", was effective April 1, 2022. The next step, and the purpose of this memo, is "Updated Current", to be effective October 1, 2022. The transition for private asset classes to the new target allocation is expected to occur over time through revised pacing schedules. Any over (under) weights to private asset classes will result in an under (over) weight to the corresponding public market asset class. Sections for revision are VI. Asset Allocation and VII. Performance Objectives as presented in greater detail below.

In addition to the above and the below, Aon will be presenting a review of the benchmarks within the Policy Benchmark at the August Board meeting. All summarized changes below are contained in greater detail in the Aon presentation, and can be seen in the redlined and cleaned versions of the IPS. Aon is recommending the following changes:

- Emerging Market Debt – change from three benchmarks to one. The change simplifies the benchmark, while also retaining similar characteristics to the current benchmark.
- Change the Private to Public Equity over (under) weights to include all Public Equity. Currently this adjustment excludes the dedicated public market emerging market equities allocation.
- Update the ticker used for SOFR to one supported by the industry. The initial ticker adopted in March was preemptive and more research provided a more applicable benchmark.
- Adjust the risk benchmark used for Private Equity from a 65/35 US/Non-US split to a 70/30 US/Non-US split. This split is deemed to be more reflective of PSERS' Private geographic representation.

VI. Asset Allocation:

ASSET CLASS	TARGET ALLOCATION		
	Current	Updated Current	Changes
Equity Exposure	40.00%	42.00%	2.00%
Public Equity:	28.00%	30.00%	2.00%
U.S. Equity	12.00%	15.00%	3.00%
Non-U.S. Equity:	16.00%	15.00%	-1.00%
Private Equity:	12.00%	12.00%	0.00%
Fixed Income Exposure	33.00%	33.00%	0.00%
Public Fixed Income	27.00%	27.00%	0.00%
Investment Grade	9.00%	10.00%	1.00%
Credit-Related	6.00%	6.00%	0.00%
Inflation Protected	12.00%	11.00%	-1.00%
Private Fixed Income	6.00%	6.00%	0.00%
Private Credit	6.00%	6.00%	0.00%
Real Asset Exposure	29.00%	28.50%	-0.50%
Public Real Assets	18.00%	16.50%	-1.50%
Infrastructure	5.00%	5.00%	0.00%
Commodities	9.00%	7.50%	-1.50%
Real Estate	4.00%	4.00%	0.00%
Private Real Assets	11.00%	12.00%	1.00%
Infrastructure	4.00%	5.00%	1.00%
Real Estate	7.00%	7.00%	0.00%
Absolute Return	6.00%	4.00%	-2.00%
Net Leverage	-8.00%	-7.50%	0.50%
Cash	3.00%	3.00%	0.00%
Explicit Leverage	-11.00%	-10.50%	0.50%
	100.00%	100.00%	0.00%

VII. Performance Objectives

The following are the changes to the Policy Benchmark.

The changes to the Target Asset Allocation noted above are shown at a higher level, useful in establishing tolerance bands for asset classes, while the Policy Benchmark has more granularity to clearly communicate the overarching return expectations, along with a significant amount of the risk appetite, of the Target Asset Allocation.

	Benchmark Policy Weights		
	Current	Updated Current	Changes
Equity Exposure	40.00%	42.00%	2.00%
Public Equity:	28.00%	30.00%	2.00%
S&P 500 TR Index (75%), S&P MidCap 400 TR Index (12.5%), S&P Small Cap 600 TR Index (12.5%)	12.00%	15.00%	3.00%
MSCI ACWI ex USA IMI with Developed Market Currencies (50% Hedged to USD) Net TR Index	13.00%	12.75%	-0.25%
MSCI Emerging Markets IMI Net TR Index	3.00%	2.25%	-0.75%
Private Equity:	12.00%	12.00%	0.00%
Burgiss TR, one-quarter lagged ²	12.00%	12.00%	0.00%
Fixed Income Exposure	33.00%	33.00%	0.00%
Public Fixed Income:	27.00%	27.00%	0.00%
Investment Grade			
Bloomberg Barclays US Aggregate Bond TR Index	1.00%	2.00%	1.00%
Bloomberg Barclays GDP Global Aggregate Bond Developed Market ex US TR Index (Hedged to USD)	0.00%	0.00%	0.00%
Bloomberg Barclays U.S. Long Treasury TR Index	8.00%	8.00%	0.00%
Credit-Related			
J.P. Morgan GBI-EM Broad Diversified Index (34%), J.P. Morgan EMBI Global Diversified Index (33%), ICE BofAML EM Corporate Plus Index (Hedged to USD) (33%)	2.00%	2.00%	0.00%
Bloomberg Barclays US Corporate High Yield Bond Index	4.00%	4.00%	0.00%
Inflation Protected			
Bloomberg Barclays US Government Inflation-Linked Bond All Maturities TR Index	10.00%	10.00%	0.00%
Bloomberg Barclays World Government ex US Inflation-Linked Bond All Maturities TR Index (Hedged to USD)	2.00%	1.00%	-1.00%
Private Fixed Income:	6.00%	6.00%	0.00%
Credit-Related			
S&P LSTA Leveraged Loan TR Index + 200bps	6.00%	6.00%	0.00%

Continued

	Benchmark Policy Weights		
	Current	Updated Current	Changes
Real Asset Exposure	29.00%	28.50%	-0.50%
Public Real Assets:	18.00%	16.50%	-1.50%
Infrastructure			
Alerian Midstream Energy TR Index	0.00%	0.00%	0.00%
FTSE Developed Core Infrastructure 50/50 Net TR Index (Hedged to USD)	5.00%	5.00%	0.00%
Commodities			
Bloomberg Commodity TR Index	3.00%	2.50%	-0.50%
Bloomberg Gold TR Subindex	6.00%	5.00%	-1.00%
Real Estate			
FTSE EPRA/NAREIT Developed, Net TR Index (Hedged to USD)	4.00%	4.00%	0.00%
Private Real Assets:	11.00%	12.00%	1.00%
Infrastructure			
FTSE Developed Core Infrastructure 50/50 Net TR Index (Hedged to USD), one-quarter lagged	4.00%	5.00%	1.00%
Real Estate			
NFI and Burgiss TR, one-quarter lagged ³	7.00%	7.00%	0.00%
Absolute Return	6.00%	4.00%	-2.00%
HFRI Fund of Funds Conservative Index + 100bps	6.00%	4.00%	-2.00%
Net Leverage	-8.00%	-7.50%	0.50%
Cash			
ICE BofAML 0-3 Month US Treasury Bill Index	3.00%	3.00%	0.00%
Financing Cost of Leverage⁸			
3-Month Term SOFR	-11.00%	-10.50%	0.50%
TOTAL	100.00%	100.00%	0.00%

A redlined and clean copy of the above within the IPS have been included in the Board package.

Please contact me at 717-720-4632 with any questions.